

## Message Text

LIMITED OFFICIAL USE

PAGE 01 PARIS 08150 01 OF 03 072045Z  
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00  
EB-08 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 USIA-06  
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00  
OMB-01 SS-15 STR-07 ITC-01 ABF-01 /114 W  
-----007864 072120Z /73

R 072032Z MAR 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 8276  
AMEMBASSY CANBERRA

LIMITED OFFICIAL USE SECTION 01 OF 03 PARIS 08150

USOECD

E.O. 11652: N/A  
TAGS: OECD, ECON, AS  
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE  
(EDRC): REVIEW OF AUSTRALIA, MARCH 2, 1978

REF: (A) PARIS 7018; (B) CANBERRA 1526; (C) STATE 52998

1. SUMMARY: THE AUSTRALIAN REVIEW IS ALWAYS A HIGH SPOT OF THE EDRC CALENDAR DUE TO THE PERSONALITY AND ECONOMIC PHILOSOPHY OF AUSTRALIAN DELEGATION HEAD, TREASURY DEPUTY SECRETARY, J. O. STONE. EDRC BOMBARDED STONE WITH SHARP QUESTIONING ON DEMAND MANAGEMENT POLICY, PROTECTIONISM, DE FACTO INCOMES POLICY AMONG OTHERS -- BUT STONE STUCK TO HIS GUNS DEFENDING THE NECESSITY FOR FOLLOWING CURRENT "CLASSICAL" POLICY TO CORRECT THE FUNDAMENTAL IMBALANCES IN THE AUSTRALIAN ECONOMY. ON PROTECTIONISM, HE CITED "POLITICAL NECESSITIES" AS OVERRIDING ARGUMENTS OF ECONOMICS AND LOGIC. EDRC CONCLUDED THAT AUSTRALIAN POLICY CONSISTED BASICALLY OF A "STRATEGY OF PATIENCE" WHICH IT HOPED WOULD SOON LEAD TO THE

LIMITED OFFICIAL USE

PAGE 02 PARIS 08150 01 OF 03 072045Z

DESIRED RESULTS, PARTICULARLY GIVEN THE HIGH SOCIAL COSTS INVOLVED. WELL-SUBSTANTIATED AND THOUGHTFUL COMMENTS FROM EMBASSY CANBERRA AND WASHINGTON AGENCIES GREATLY APPRECIATED BY U.S. DEL. END SUMMARY

2. TRENDS AND FORECAST: AUSTRALIAN DELEGATION AGREED WITH SECRETARIAT'S PRESENTATION OF 1977 ECONOMIC PER-

FORMANCE AND ITS FORECAST FOR 1978, ALTHOUGH AUSTRALIANS WERE SOMEWHAT MORE OPTIMISTIC ON EMPLOYMENT, EXPECTING A SLIGHT UPTREND OVER THE YEAR WITH GREATER STRENGTH IN THE SECOND HALF. REFERRING TO A PAPER SUBMITTED IN SEPTEMBER 1977 TO THE EDRC BY THE AUSTRALIAN PERMANENT DELEGATION, STONE OPENED THE AUSTRALIAN EXAMINATION BY EXPRESSING THE HOPE -- WHICH WAS REALIZED -- THAT THE DISCUSSION COULD CONCENTRATE ON UNDERLYING PROBLEMS AND BASIC POLICY OBJECTIVES RATHER THAN A DETAILED EXAMINATION OF MACRO-VARIABLES AND FORECASTS IN THE AUSTRALIAN ECONOMY.

3. ECONOMIC PROBLEMS AND POLICY: STONE COMPLIMENTED THE SECRETARIAT'S DRAFT SURVEY, NOTING THAT IT CORRECTLY FOCUSED ON THE BASIC PROBLEM FACING THE AUSTRALIAN ECONOMY -- FACTOR SHARE IMBALANCES, OR, TO PUT OTHERWISE, AN INSUFFICIENT LEVEL OF PROFITS TO ASSURE ADEQUATE INVESTMENT. HE ADDED THAT EXAMINATION OF DEMAND MANAGEMENT WAS NOT THE BEST APPROACH TO AUSTRALIAN ECONOMIC POLICY -- INSTEAD CONSIDERATIONS SUCH AS INFLATIONARY EXPECTATIONS, SHIFTS IN FACTOR SHARES, CURRENT ACCOUNT EQUILIBRIUM (STONE CALLED THESE ECONOMIC FUNDAMENTALS) SHOULD BE AT THE CENTER OF THE ANALYSIS. STONE STRONGLY ARGUED THAT ONCE THE "FUNDAMENTALS" WERE RESTORED TO PROPER BALANCE, THE REST WILL FOLLOW; I.E., GROWTH WILL PICK UP, EMPLOYMENT WILL RISE. HE OBJECTED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 08150 01 OF 03 072045Z

TO DESCRIBING THIS AS A "MEDIUM-TERM" STRATEGY, ADMITTING, HOWEVER, THAT IT WAS TAKING SOMEWHAT LONGER THAN HAD BEEN EXPECTED. IN THIS RESPECT, STONE CHARACTERIZED CURRENT GOA POLICY AS "EXPANSIONARY" SINCE IT WAS SUCCEEDING IN REDUCING INFLATIONARY EXPECTATIONS AND RESTORING "BETTER" FACTOR BALANCE, PAVING THE WAY FOR A SUSTAINED RECOVERY. HE ADDED THAT AUSTRALIA WOULD, IN FACT, NOT WELCOME A SHARP DEMAND STIMULUS WHETHER FROM FOREIGN OR AUTONOMOUS DOMESTIC SOURCE. SEVERAL EDRC MEMBERS SUGGESTED THAT GOA WAS USING CYCLICAL POLICY (I.E., DEMAND MANAGEMENT) TO ATTACK STRUCTURAL PROBLEMS -- BUT STONE WOULD HAVE NONE OF IT, STICKING TO HIS BASIC APPROACH THAT THE CURRENT POLICY WAS WORKING, IF A BIT SLOWLY.

4. IN PURSUIT OF ITS POLICY OBJECTIVES, GOA CAREFULLY AVOIDS CONCEPT OF "TARGETS," PREFERRING, ACCORDING TO STONE, TO SPEAK OF FORECASTS, EXPECTATIONS, OBJECTIVES

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 08150 02 OF 03 072058Z  
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00  
EB-08 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 USIA-06  
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00  
OMB-01 SS-15 STR-07 ITC-01 ABF-01 /114 W  
-----007987 072121Z /73

R 072032Z MAR 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 8277  
AMEMBASSY CANBERRA

LIMITED OFFICIAL USE SECTION 02 OF 03 PARIS 08150

WHICH CONVEY LESS OF THE IMPRESSION THAT GOVERNMENT  
POLICY CAN NECESSARILY DETERMINE THE DESIRED OUTCOME.  
IN THIS LIGHT, THEREFORE, GOA BELIEVES IT IS NOT APPRO-  
PRIATE TO TALK OF CONFLICTS BETWEEN TARGETS. STONE ALSO  
HAD RECOURSE, REPEATEDLY, TO INEVITABLE CONFLICTS BETWEEN  
PRIMARY POLICY OBJECTIVES AND IMMEDIATE POLITICAL EXPE-  
DIENCY TO EXPLAIN CERTAIN GOVERNMENT MEASURES -- E.G.,  
PROTECTIONIST TRADE POLICY, INCREASED COMPANY TAX RATE  
-- WHICH SEEMED INCONSISTENT WITH PRIMARY OBJECTIVES.  
ON THE OTHER HAND, HE FELT THAT THE EXISTENCE OF INSTI-  
TUTIONAL FEATURES SUCH AS THE WAGE-INDEXATION SYSTEM  
HAD PLAYED NO ROLE IN ESTABLISHING THE "SOCIAL CONSEN-  
SUS" FAVORING INCREASED PROFITS NOR IN BRINGING DOWN  
THE INFLATION RATE. IN FACT, HE ARGUED, REAL WAGES WOULD  
HAVE ADJUSTED FASTER WITHOUT THE CONCILIATION AND ARBI-  
TRATION COMMISSION (CAC) AWARDS, EVEN THE MOST RECENT  
WAGE ADJUSTMENT OF ONLY 55 PERCENT TO CPI. "WAGE DRIFT"  
TRENDS WERE USED TO SUPPORT THIS VIEW. STONE DESCRIBED  
THE CAC MECHANISM AS "THOROUGHLY MISCHIEVOUS" -- WITH  
SIDE EFFECTS SUCH AS WAGE COMPRESSION WHICH DETRACT FROM  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 08150 02 OF 03 072058Z

LIMITED DESIRABLE EFFECTS OF PARTIAL INDEXATION.

5. TRADE POLICY: VIRTUALLY ALL DELEGATIONS AND THE SECRETARIAT SHARPLY QUESTIONED THE AUSTRALIAN TRADE RESTRICTIONS, NOTING NOT ONLY THE INFLATIONARY EFFECTS, BUT ALSO DAMAGE TO THE WORLD TRADING SYSTEM. STONE WAS GENERALLY DEFENSIVE IN HIS RESPONSES, ARGUING THAT THESE MEASURES WERE TEMPORARY ABERRATIONS OF POLICY WHICH WOULD HAVE TO BE REVISED AS SOON AS CONDITIONS PERMIT. HE ASSURED THE COMMITTEE THAT THE GOA WAS AWARE OF THE COSTS OF THIS POLICY, BUT REFUSED TO BE DRAWN INTO ANALYSIS OF MEDIUM-TERM IMPLICATIONS OF PROTECTION SINCE, IN HIS VIEW, MEASURES WOULD NOT EXIST IN MEDIUM TERM. AS OCCASIONS AROSE, PARTICULARLY WHEN RESPONDING TO EC MEMBER QUESTIONS, STONE DID NOT FAIL TO NOTE ASYMMETRICAL ATTITUDE TOWARD AGRICULTURAL AND INDUSTRIAL TRADE RESTRICTIONS -- SAYING AT ONE POINT, "WHAT'S SAUCE FOR THE GOOSE, IS SAUCE FOR THE GANDER."

6. EXCHANGE RATE POLICY: THE GOA FEELS THAT THE CURRENT AUSTRALIAN DOLLAR RATE IS ABOUT RIGHT VIS-A-VIS ITS MAJOR TRADING PARTNERS AND INTENDS TO DEFEND THE EXISTING RATE. THE 1976 DEVALUATION WAS A SUCCESS IN EYES OF GOA SINCE IT HELPED THE FACTOR SHARE REDISTRIBUTION (PARTICULARLY FOR EXPOSED SECTORS), HAS LED TO A STEADY IMPROVEMENT IN THE TRADE BALANCE, AND HAS NOT BEEN ALLOWED TO FILTER INTO WAGE INDEXATION AWARDS. STONE ARGUED THAT THE OVERALL CURRENT BALANCE WAS THE BEST MEASURES OF COMPETITIVE POSITION (WITH A SECULAR 2-1/2 PERCENT DEFICIT AS APPROXIMATELY EQUILIBRIUM) -- LEAVING THE STRUCTURE OF THE CURRENT ACCOUNT TO ADJUST ACCORDING TO MARKET FORCES. THE "GREGORY THESIS" WAS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 08150 02 OF 03 072058Z

NOTHING NEW TO AUSTRALIA, ACCORDING TO STONE, HAD CAUSED NO PROBLEMS DURING THE MINERALS BOOM OF THE 60'S AND SHOULD NOT CAUSE SIGNIFICANT PROBLEMS IN THE NEAR FUTURE. ON A STATISTICAL NOTE, STONE QUESTIONED THE SECRETARIAT'S ANALYSIS OF SIGNIFICANT IMPORT PENETRATION IN THE EARLY 70'S -- CITING VERY PRELIMINARY RESULTS

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 08150 03 OF 03 072054Z  
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00  
EB-08 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 USIA-06  
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00  
OMB-01 SS-15 STR-07 ITC-01 ABF-01 /114 W  
-----007938 072120Z /73

R 072032Z MAR 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 8278  
AMEMBASSY CANBERRA

LIMITED OFFICIAL USE SECTION 03 OF 03 PARIS 08150

OF A MAJOR REVISION OF TRADE STATISTICS NOW UNDERWAY WHICH HE SAID WOULD TOTALLY CHANGE THE STATISTICAL BASIS OF THE SECRETARIAT'S ANALYSIS. UNFORTUNATELY, THE REVISION WAS NOT FAR ENOUGH ALONG TO PROVIDE NEW STATISTICS FOR THE COMMITTEE OR THE SECRETARIAT. IN RESPONSE TO U.S. QUESTION, STONE SAID THAT ALL INWARD CAPITAL CONTROLS INVOKED IN JANUARY, 1977 HAD BEEN LIFTED IN JULY, 1977.

7. CONCLUSIONS: EDRC SELDOM RUNS UP AGAINST A NATIONAL DELEGATION HEADED BY A PERSON AT ONCE SO ENTERTAINING AND SO CONVINCED OF THE CORRECTNESS OF HIS GOVERNMENT'S POLICY. STONE DID NOT GIVE AN INCH ON THE ABSOLUTE NECESSITY FOR THE GOVERNMENT'S CURRENT POLICY WHICH COULD BE CALLED RESTRICTIVE IN TERMS OF DEMAND MANAGEMENT, BUT SHOULD, HE FELT, BE CALLED "EXPANSIONARY" GIVEN ITS OBJECTIVES OF REDUCING INFLATION AND RESTORING PROFIT LEVELS. AT THE END OF THE DAY, THE EDRC CHAIRMAN SUMMARIZED THE DISCUSSION AS FOLLOWS:

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 08150 03 OF 03 072054Z

(A) THE AUSTRALIAN EXPERIENCE CLEARLY DEMONSTRATES THAT "POLITICAL NECESSITIES" SOMETIMES REQUIRE GOVERNMENTS TO TAKE POLICY ACTIONS WHICH CONTRADICT CERTAIN MAJOR POLICY OBJECTIVES;

(B) AUSTRALIAN POLICY MUST BE CAUTIOUS, BUT THE SOCIAL PRICE OF CURRENT POLICY HAS BEEN VERY HIGH. THE AUS-

TRALIAN AUTHORITIES BELIEVE THAT THE FUNDAMENTAL IMBAL-  
ANCES MUST BE SOLVED BY CLASSIC POLICY -- BUT RECENT  
CAC AWARDS HAVE CLEARLY CONTRIBUTED TO WAGE MODERATION;

(C) AUSTRALIA HAS NO "MEDIUM-TERM STRATEGY" IN THE  
EXPLICIT SENSE, RATHER A STRATEGY OF PATIENCE (A TERM  
STONE WELCOMED AND PLANNED TO CARRY BACK TO CANBERRA)  
-- HOPING THAT THE DESIRED RESULTS WILL COME SOON.

(D) AUSTRALIAN DELEGATION AND SECRETARIAT ARE IN  
GENERAL AGREEMENT ON 1977 OUTCOME AND 1978 FORECAST.  
SALZMAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC DEVELOPMENT, COMMITTEES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 mar 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978PARIS08150  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780103-0311  
**Format:** TEL  
**From:** PARIS USOECD  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780398/aaaaderk.tel  
**Line Count:** 290  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 0ac632cc-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 PARIS 7018, 78 CANBERRA 1526, 78 STATE 52998  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 04 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3417185  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC): REVIEW OF AUSTRALIA, MARCH 2, 1978  
**TAGS:** ECON, AS, OECD  
**To:** STATE CANBERRA  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/0ac632cc-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014